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SUBJECT: LIBERIA's OIL PROSPECTS INCREASE FOLLOWING DISCOVERY IN NEIGHBORING SIERRA LEONE

¶1. (SBU) SUMMARY: An oil discovery September 16 at a deepwater exploration site in Sierra Leone along the Liberian border increases the prospects of unearthing oil along Liberia's geologically similar coast. The highly-publicized find coincides with the National Oil Company of Liberia's (NOCAL) solicitation of bids for five separate offshore licenses in Liberia. While the propitious find is likely to spark greater interest and higher bids from international oil companies, the prospect of vast oil revenues poses challenges as well as opportunities for Liberia. The fact that prospective oil funds remain years away provides fiscal watchdogs within the GOL the opportunity to implement the ironclad transparency measures that will ensure oil revenues translate into widespread social benefit.

¶2. (SBU) Anadarko Petroleum Company discovered 45 net feet of hydrocarbon pay in the Venus B-1 well, which sits in two blocks along the Sierra Leone-Liberia border. President of the National Oil Company of Liberia (NOCAL) Fodee Kromah told Econoff September 21 that the Sierra Leone discovery reinforces the pervasive conviction that oil lies in Liberia's deepwater, which is geologically identical to the Sierra Leonean site.

¶3. (SBU) The timing of Anadarko's find could not be better for Liberia. The Ministry of Lands, Mines, and Energy (MLME) and NOCAL announced a third round of bidding for offshore petroleum licenses on August 27. Bidders may submit proposals for exploration of the five remaining blocks near the border of Cote d'Ivoire until November 30. Kromah hopes rising regional oil prospects will bolster enthusiasm for the five blocks, giving the GOL the upper hand in negotiations. Many companies expressing interest already have an ownership stake in Liberia's offshore blocks, among them Nigeria's Oranto Petroleum, Australia's Woodside West Africa, and Spain's Repsol Exploration.

¶4. (SBU) Anadarko is enjoying the fruits of its first-comer advantage, with a stock price that has jumped 50% since March, but the largest U.S. oil companies appear reluctant to bid on the unexplored blocks. Chevron Deepwater Exploration and Development Manager Mark Krolow downplayed the likelihood of economically viable exploration along Liberia's eastern border, given the less favorable nature of that basin's geological formations. Instead, Krolow told Econoff that Chevron may buy out one of the smaller "promoters" - companies that do not explore or bring fields to production - which currently own minority interests in many of the acquired western blocks.

¶5. (SBU) Media hype may imply oil riches are imminent, but the path from exploration to production is a labor, capital, and time-intensive process. If Liberia discovered oil tomorrow, Chevron estimates it would take seven years and approximately \$6 billion in investment before oil production could begin and Liberia would see any revenue. Nevertheless, high and immediate expectations of oil revenue are evident: the House of Representatives passed an act September 3 to establish a new political capital, offering expected future oil revenues as collateral against \$10 billion in construction costs.

¶6. (SBU) COMMENT: While prospective oil riches remain years away, the GOL must act soon to implement necessary governance, transparency, and social development plans. To date, the bidding

process for exploration rights has been surprisingly free of corruption, perhaps because there have not yet been proven reserves.

As potential returns become more real, there may be pressures on the government to provide incentives to legislators to agree to concessions, as occurs in other sectors. The good news is that Liberia already requires potential oil revenue to be reported under the LEITI process. With consistent support from international partners, and contracts that bind oil companies to socially responsible practices, Liberia may be able to follow the example of Ghana, escape the problems of Nigeria, and leverage oil revenues for the benefit of all its citizens.

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